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SIPDIS

SENSITIVE

COMMERCE PASS ALSO FOR NEWMAN

E.O. 12958: N/A

TAGS: [ENRG](#) [EPET](#) [ETRD](#) [TU](#)

SUBJECT: BOSPHORUS BYPASS AND THRACE DEVELOPMENT COMPANY

REF: A. A. ANKARA 3419

[B. B. ANKARA 4443](#)

Sensitive But Unclassified - Please Handle Accordingly

[¶1.](#) (SBU) Summary: Recognizing growing oil tanker congestion in the Bosphorus and associated environmental and safety risks, the Government of Turkey (GOT) has expressed support for construction of a bypass pipeline to avoid the Turkish straits, aiming to transport oil overland from the Black Sea to the Mediterranean (or Aegean or Adriatic) Sea. At least three projects entirely in Turkey have sought permits from the GOT, so far without success. Delays in granting permits appear to stem from concern about waiting for completion of Baku-Tbilisi-Ceyhan (BTC) and bureaucratic slowness and perhaps conflict. USG has regularly called for the GOT to move forward quickly and transparently in providing conditional permits to allow the market to pick the best route or routes. Thrace Development Company (with some American involvement) is concerned that a late-comer, copycat project across Thrace (supported by Transneft) may gain unfair advantage in the permitting process. End Summary.

The First Mover - Free Rider Dilemma

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[¶2.](#) (SBU) Ref A provided background on Bosphorus bypass projects; this cable provides an update on projects passing only through Turkey. With the growth in crude oil shipped from Russia and the Caspian, oil tanker shipping of oil has increased to close to 3 million barrels per day, generally perceived as close to capacity. The Montreux Convention guarantees free passage through the Straits, so Turkey has been limited in restrictions it can impose, but it has restricted night-time and bad-condition passage, which has created significant delay costs for tankers, particularly last winter. A number of multiple-country cross Balkan pipelines have sought support and financing in recent years. More recently, three projects fully in Turkey have gained prominence, and have sought permits from the GOT. Two have sought USG advocacy because of U.S. company involvement: 1) a trans-Thrace pipeline sponsored by Thrace Development Company (TDC), with participation by American Howard Lowe and Kazakh and Turkish interests, and 2) a Samsun-Ceyhan project with participation by American Enesco and Turkish Calik Energy. Because of American involvement in the potentially competing projects, USG has stressed the desire to leave choice of project(s) to the market. In fact, some GOT officials have stated that Samsun-Ceyhan and trans-Thrace were not mutually exclusive. Some observers note the special risk of the first investor or oil supplier committing to a new pipeline, in effect reducing delay costs for shippers who stay in the straits (free rider or first mover dilemma).

Thrace Development Company Views

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[¶3.](#) (SBU) A second trans-Thrace project has recently splashed in the Turkish press, sponsored by Transneft and Turkish businessman Okan Tapan and the Anadolu Construction and Machinery Inc. In recent press accounts, Tapan has claimed that the PM supports the project and has denied claims that the trans-Thrace route threatened environmentally sensitive zones (the terminus of Sarhos on the Aegean). Russian support has been reported in the local and international press as on again off again, but state firm Transneft now appears to be actively supporting the project. Thrace Development Company rep Yilmaz Oz expressed strong concerns to Econoff that what he called a copy-cat project filed one year after TDC might engender influence peddling or other non-transparent effects. He pointed out potential pressure to seek deliverables in advance of Putin's visit in early September. The TDC rep described his project's long and active permit application process since June 2003, and lamented that the Transneft project had filed its carbon copy application one year later. According to the rep, the TDC application has been delayed at the "Council of Ministers" where he perceived that the MFA was holding it up. Oz thanked the Embassy for previous messages to the GOT, but urged these to continue to come at the highest levels in light of the Transneft/Anadolu project's copycat nature and claims in the press.

14. (U) The Sarhos proposals have sparked extensive environmental opposition from both local non-government organizations and international environmental groups. A large rally was held in Sarhos at the beginning of August, with speakers loudly protesting the proposal. GOT officials have noted that no infrastructure or deep water port exist for the proposed pipeline in Thrace, whereas the Samsun-Ceyhan pipeline would tap into some existing network and deep water port.

Conflicting signals on permits

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15. (SBU) Per Ref B and previous, in response to repeated USG queries, the GOT recently expressed the need to move forward on providing at least conditional permits on projects. Some GOT interlocutors have admitted that a now-out-of-date "waiting for BTC" view had delayed the permitting process. Some energy officials have claimed that permit applications have been "thin", referring to lack of experience or through-put commitments. More absurdly, some bureaucrats appear worried about too many pipelines, so mistakenly want to engage in "picking the winner". Most likely, there is genuinely slow bureaucratic inertia, confusion, and special interests impingeing on how to manage development of viable bypass options. Most recently a Ministry of Energy contact told Econoff, that the Minister of Energy was preparing a decision to clarify this process. Embassy will continue to repeat its message to the GOT of the need to move forward in a timely and transparent way to provide conditional permits to let projects compete for financing and throughput commitments in order to let the market choose a winner. The risk is that while the GOT is anxious to reduce shipments through the Bosphorus, procrastination on the permit issue could end up delaying any possible pipeline until a straits disaster forces the issue.

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